



Leasehold Surrender Interest Guide

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INTRODUCTION

This Leasehold Surrender Guide describes the basic elements of Leasehold Surrender Interest ("LSI") under standard NPS Concession Contracts and describes the NPS methodology for estimating the value of LSI using the standard LSI formula. (Some NPS concession contracts contain non-standard LSI provisions. As such non-standard provisions vary, they are not discussed in this Guide).

This Guide has been developed in conformance with the requirements of the National Park Service Concessions Management Improvement Act of 1998, P.L. 105-391 (the "1998 Act"), 36 CFR Part 51 (the NPS concession contracting regulations which implement the 1998 Act), and the requirements of the current NPS Category I Standard Language Concession Contract (the "LSI Contract").

This Guide is not intended to describe all LSI requirements. NPS personnel who are engaged in the administration of LSI Contracts must be knowledgeable with and apply Part 51 and the provisions of the LSI Contract. In the event of any inconsistency between this Guide and the 1998 Act, Part 51, or the LSI Contract, the latter documents prevail.

This Guide does not adopt mandatory requirements or policy for the National Park Service or NPS concessioners.

Capitalized terms are defined in the Glossary.

Possessory Interest and Leasehold Surrender Interest

From 1965 through 1998, NPS concessions management was undertaken pursuant to the Concessions Management Policies Act of 1965, P.L. 89-249 (the "1965 Act"). The 1965 Act was repealed and replaced in 1998 by the 1998 Act.

There are a variety of differences between the two laws. Of significance to this Guide is the form of compensable interest provided to concessioners in real property improvements made by concessioners. The 1965 Act provided a compensable interest in qualified real property improvements in the form of Possessory Interest ("PI"). A "PI Contract" refers to an NPS concession contract that provides for Possessory Interest awarded under the 1965 Act. The 1998 Act provides a compensable interest in qualified real property improvements ("LSI Improvements") in the form of LSI.

Many PI Contracts are still in effect, although there are fewer every year as they are replaced by LSI Contracts. As discussed further below, when a PI Contract is replaced by a LSI contract (and the visitor services are to be continued under the new contract), the existing PI improvements are carried over as LSI Improvements to the LSI Contract.

What is Leasehold Surrender Interest?

The 1998 Act requires that NPS concession contracts that encompass certain types of real property improvements made by the concessioner (or a prior concessioner) on park area lands, provide, subject to a number of conditions, a compensable interest in the improvements, so that upon contract termination or expiration the concessioner is entitled to payment for the value of the LSI Improvements. The value of an LSI Improvement ("LSI

Value”), in summary, is its Construction Cost as adjusted for inflation (using the Consumer Price Index or “CPI”), less Depreciation of the improvement.

The existence of LSI encourages concessioner investment in visitor facilities for the benefit of park area visitors. However, LSI is at least a contingent financial liability of the United States and, accordingly, must be carefully managed.

LSI does not include any interest in the land on which the LSI Improvements are located. The United States retains legal ownership of all LSI Improvements.

Part 51 and the LSI Contract, particularly Exhibits A and F of the LSI Contract, establish a number of terms and conditions regarding the nature, scope and conditions of LSI, including a detailed process with which the concessioner must comply in order to obtain LSI.

LSI is obtained by a concessioner only if all applicable contractual requirements are met.

Why Estimate LSI Value?

Estimating LSI provides NPS with the information necessary to project whether a contract can financially support new construction that will result in LSI and to estimate the funds needed to acquire LSI if circumstances warrant.

A legally binding LSI Value (“Determined LSI Value”) is established (usually after contract expiration) in accordance with the procedures set forth in the LSI Contract (including possible arbitration). NPS estimates of LSI Value as described in this Guide are not legally binding either on the Concessioner or NPS.

CHAPTER 1: LSI IMPROVEMENTS

Under the terms of an LSI Contract, a concessioner is eligible to obtain LSI only with respect to LSI Improvements it makes or provides pursuant to the terms and conditions of a concession contract. A Capital Improvement may qualify as an LSI Improvement only if the improvement is:

- Construction of a complete new Structure (or complete new addition to an existing Structure, i.e., a new wing);
- Completion of a Major Rehabilitation; or
- Installation or replacement of a Fixture or Non-Removable Equipment.

In addition, in order to qualify as an LSI Improvement, the improvement must be either an LSI Improvement acquired from a former concessioner or one:

- Built by the concessioner with concessioner funds (but not from Repair and Maintenance Reserve funds as discussed below);
- Made within the boundaries of a park area and on land owned by the United States; and
- Approved and constructed in strict accordance with the terms of the applicable LSI Contract.

Construction of a New Structure

A “Structure” for LSI purposes is a building, dock, or similar edifice affixed to the land so as to be part of the real estate. A Structure may include both constructed infrastructure (e.g., water, power and sewer lines) and constructed site improvements (e.g., paved roads, retaining walls, and sidewalks) that are permanently affixed to the land so as to be part of the real estate and that are in direct support of the use of the Structure. Landscaping that is integral to the construction of a Structure is considered as part of a Structure.

Personal Property of any nature, including interior furnishings, is not part of a Structure.

The replacement of a Component of an existing Structure (e.g. a roof replacement of an existing building) does not constitute the construction of a Structure. The replacement of a Component of a Structure is considered as Repair and Maintenance of the Structure as discussed below. A complete new Structure must be constructed in order for LSI to be obtained. However, construction of a new addition to an existing Structure (e.g., a new wing) is considered as construction of a new Structure.

Major Rehabilitation

A “Major Rehabilitation” for LSI purposes is (1) a planned, comprehensive rehabilitation of an existing Structure that (2) NPS approves in advance and determines is completed within 18 months from start of the rehabilitation work; and (3) the Construction Cost of which exceeds 50 percent of the Pre-Rehabilitation Value of the Structure.

The Pre-Rehabilitation Value of an existing Structure is the replacement cost of the Structure less depreciation.

A rehabilitation project, accordingly, must meet all of the following requirements to qualify as a Major Rehabilitation:

- Planned, comprehensive rehabilitation – a planned (in advance of construction) Comprehensive rehabilitation that is large in scope (i.e., in effect, nearly equivalent to the construction of a new Structure).
- Approved by NPS in advance – in accordance with the terms of the applicable contract, all Major Rehabilitations must receive NPS written advance approval before a proposed rehabilitation commences.
- Completed within 18 months – a Major Rehabilitation must be completed within an 18 month period from the date construction commences unless there are special circumstances in which NPS approves a longer time frame (e.g., short operating season and no access to the property during the off season).
- Exceeds 50% of the Pre-Rehabilitation Value – the total cost of the rehabilitation must be greater than one-half of the Pre-Rehabilitation Value of the Structure to be rehabilitated.

Fixtures and Non-Removable Equipment

A “Fixture” for LSI purposes (the term also refers to Non-Removable Equipment) is (1) a manufactured item of Personal Property of independent form and utility (2) necessary for the basic functioning of a Structure (3) that is affixed to and considered to be part of a Structure such that legal title to the Fixture is held by NPS as part of the real property once installed. The definition of a Fixture for LSI purposes may differ significantly from the term as sometimes used in the construction or real estate industries.

Accordingly, an object (other than a floating dock- which is deemed by regulation to be a Fixture) must meet **all** of the following requirements to qualify as a Fixture:

- Manufactured item of Personal Property – see discussion of Personal Property below.
- Of independent form and utility – the object has utility in more than one place and does not require significant modifications to the Structure in order to install.
- Necessary for the basic functioning of a Structure –the basic functioning of a Structure applies only to the physical Structure and not to the specific use of the Structure. For instance, the heating and cooling system of a building is necessary for its basic functioning. However, a walk-in freezer, although necessary for a particular use of the Structure, is not necessary to its basic functioning.
- That is affixed to and considered to be part of the Structure – the object cannot be removed without causing significant damage to the Structure.
- Such that title is held by NPS as real property once installed – all permanent Structures on park lands, including their Fixtures, are owned by NPS.

Fixtures do not include building materials (e.g. wallboard, flooring, concrete, cinder blocks, steel beams, studs, window frames, windows, rafters, roofing, framing, siding, lumber, insulation, wallpaper, paint, etc.). Refer to Appendix 3 for Fixture and non-Fixture examples.

Floating docks (but not other types of floating property) are considered to be Non-Removable Equipment (Fixtures) for LSI purposes pursuant to regulation.

Personal Property

Personal Property for LSI purposes is an object that is not affixed to and/or not considered to be part of a Structure. LSI is not obtained in Personal Property as LSI is only obtained in real property.

Trade Fixtures

“Trade Fixtures” for LSI purposes are Personal Property attached to and/or located within real property for business purposes, such as display counters. Trade Fixtures, even though commonly referred to as “fixtures,” often consist of items of Personal Property that do not meet the LSI definition of a Fixture. The LSI definition of a Fixture must be applied to each item identified as a Trade Fixture to determine if it in fact qualifies as an LSI Fixture.

Trade Fixtures (as the term is generally used in private industry) include:

<u>Operation</u>	<u>Trade Fixture</u>
Restaurant	banquettes, stoves, refrigerators
Gift Store	shelving to hold product, store signs
Hotel	washers, dryers

These objects, although considered as “Trade Fixtures” in private industry, would not be considered to be Fixtures for LSI purposes but as Personal Property to which LSI would not apply.

CHAPTER 2: REPAIR AND MAINTENANCE DOES NOT RESULT IN LSI

Repair and Maintenance

The term “Repair and Maintenance” refers to all actions taken to repair and maintain the condition of Improvements. Repair and Maintenance does not include the construction of new Structures, Major Rehabilitations, or the installation or replacement of Fixtures. Accordingly, Repair and Maintenance activities cannot result in LSI, no matter how large or expensive.

For example, replacing a Component of a Structure (e.g., replacing a roof of an existing Structure or repaving a driveway) is a Repair and Maintenance activity that does not constitute the construction of a Structure.

The use of the term “repair and maintenance” is not the same as that used in an accounting or financial sense (where it refers to an expense activity).

Repair and Maintenance Reserve

A Category I LSI Contract (or a Category II Contract) may contain provisions requiring a “Repair and Maintenance Reserve” (RMR). Although designated a reserve, the RMR is actually a bookkeeping obligation of the concessioner and not necessarily a separate account maintained by the concessioner in an escrow-type arrangement. The obligation requires actual funding when NPS directs the concessioner to perform a project.

This financial obligation is calculated by applying the specified contractual percentage against the concessioner’s annual gross receipts and is cumulative over the life of the contract. That is, unspent monies in any year continue to be an obligation of the concessioner until the contract ends. **Read the contract.** Many contracts allow the concessioner to retain unspent funds when the contract ends and others require the unspent funds to be converted to franchise fees.

Of critical importance to both the NPS and the concessioner is the understanding that the concessioner is required to maintain the facilities to the satisfaction of NPS and may be required to expend funds for repair and maintenance **beyond** the Reserve requirements. As such, the RMR amount is a **minimum requirement** under the direction of NPS.

The use of funds in the RMR account is strictly limited:

- Reserve funds may be used solely to carry out, on a project basis in accordance with a contract’s exhibit regarding RMR, Repair and Maintenance projects that are non-recurring within a seven-year time frame. “Non-recurring within a seven-year time frame” means the renewal or replacement of Components such as windows, roofs, subfloors, etc., that occurs on a frequency of **greater** than seven years. It does not include the installation or replacement of Fixtures, even if such replacement occurs on a frequency of greater than seven years.
- RMR funds may not be expended for the construction of new Structures, Major Rehabilitations, or the installation or replacement of Fixtures, i.e., actions that would result in LSI. RMR funds also may not be used for routine, operational maintenance of facilities or housekeeping and grounds keeping activities.

CHAPTER 3: APPROVAL OF LSI CONSTRUCTION

The LSI Contract, particularly its Exhibits A and F, establishes a number of requirements regarding the construction of LSI Improvements. If otherwise eligible LSI construction is undertaken in violation of the requirements of the contract, the construction activity does not result in an LSI Improvement and no LSI is obtained by the concessioner.

Among other matters, the LSI Contract provides:

- A detailed definition of LSI eligible Construction Costs (both direct and indirect);
- That a concessioner may not commence construction of an LSI Improvement without advance written NPS preliminary approval, including preliminary approval of estimated Construction Costs; and
- That after construction is complete, NPS review and final approval of the completed project is required, including approval of the Construction Cost for LSI purposes, in order for LSI to be obtained.

In addition, policy requires for all projects for which LSI is sought that the concessioner submit written certification from a certified public accountant certifying that all components of the construction costs were incurred and capitalized by the concessioner in accordance with Generally Accepted Accounting Principles, and that all components are eligible direct or indirect construction costs as defined by 36 CFR Part 51.

Exhibit F of the LSI Contract provides a detailed process for the advance and final review and approval of concessioner construction projects, including LSI projects.

CHAPTER 4: ALLOCATING LSI VALUE AMONG LSI IMPROVEMENTS

Typically the LSI Improvements of an LSI Contract are comprised of more than one improvement, e.g., a hotel building, a gift store and a gas station. Each of these separate Structures (referred to for allocation purposes as a "Unit" of the LSI Improvements) in turn is comprised of a number of specific Components. The overall LSI Value of all LSI Improvements must be allocated to each Unit of the LSI Improvements and, further, to each Component of each Unit.

Allocating LSI Value to the Unit Level

Allocating LSI Value to the Unit level generally only occurs when a PI Contract is replaced by an LSI Contract (as discussed further below). This is because, unlike LSI Contracts, the value of Possessory Interest under a PI Contract typically is an aggregate number even though the improvements in which there is Possessory Interest may consist of several Units. This aggregate number is carried over to the LSI Contract as the "Carryover LSI Value" (see discussion below) of LSI Improvements under the new LSI Contract.

The information contained in a Condition Assessment Comprehensive (CAC), particularly its Depreciation Analysis Report (DAR), provides NPS the data needed for this Unit level allocation.

Allocating LSI to the Component Level

What is a Component?

A Structure represents a collection of elements (Components) that contribute to its form and functionality. These Components include such items as foundations, walls, roof, floors, and electrical, plumbing and heating elements.

The American Society for Testing and Materials (ASTM) has developed a system for categorizing and naming the Components of Structures. This system, which is widely used in private industry, is called Uniformat II. Uniformat II utilizes three levels of Component identification (Levels 1, 2 and 3), to describe the Components that comprise a typical Structure. The NPS has adopted ASTM's Uniformat II standards for Component identification.

It is important to note the difference in levels within Uniformat II. Level 1 breaks a Structure down into seven Components, Level 2 into 23 Components, and Level 3 into 98 Components). Appendix 5 – presents a partial summary of Uniformat II, Levels 1, 2 and 3.

Why Use a Component Level Breakdown?

A Structure rarely fails as a whole; rather, its Components fail at different times. Therefore, it is prudent to allocate LSI Value to the Component level to more accurately estimate LSI Value, monitor the effectiveness of routine and preventive maintenance activities, and identify future maintenance and funding requirements necessary to maintain the Structure in good condition. Allocating to the Component level also greatly assists in estimating Depreciation and tracking concessioner-funded activities for accurate LSI accounting.

LSI Allocation to the Component level is done for internal NPS tracking purposes only. LSI tracking is shown to the Unit level on Exhibit G to an LSI Contract.

How are Components Identified?

The information contained in a CAC provides NPS the basis for Component (as well as Unit) level allocation. The CAC contains the findings of a visual inspection of structural, architectural, mechanical, accessibility and electrical Components of each real property improvement assigned to a concessioner under a PI or LSI Contract. The assessment is conducted by architectural and engineering subject matter experts.

CHAPTER 5: LSI VALUE

LSI Value Terms

This Guide utilizes several different terms to refer to LSI Value in differing circumstances. They include:

Carryover LSI Improvement

“Carryover LSI Improvement” is an improvement in which PI or LSI under a prior contract is carried over as LSI to a new contract.

Carryover LSI Value

“Carryover LSI Value” refers to the LSI Value in a Carryover LSI Improvement. A Carryover LSI Value may be adjusted during the term of the applicable contract as described below.

CPI Adjusted LSI Value

“CPI Adjusted LSI Value” refers to Carryover LSI Value and New LSI Value (as applicable) after adjustment for inflation (using the Consumer Price Index or “CPI”).

Determined LSI Value

“Determined LSI Value” refers to the value of an LSI Improvement as formally established through the procedures described in the LSI Contract (mutual agreement or arbitration). A Determined LSI Value is not an estimate of LSI Value but a legally binding value determination.

Estimated LSI Value

“Estimated LSI Value” refers to the estimate of the value of an LSI Improvement at a specific point in time after adjustment for inflation (using the CPI) and estimated Depreciation.

LSI Improvement

“LSI Improvement” is the general term referring to a real property improvement in which there is LSI.

LSI Value

“LSI Value” is the general term referring to the value of an LSI Improvement.

New LSI Improvement

“New LSI Improvement” is a new real property improvement (approved by NPS for LSI purposes) constructed during the term of an LSI Contract. A New LSI Improvement becomes a Carryover LSI Improvement under the next contract.

New LSI Value

“New LSI Value” is the value of a New LSI Improvement after completion and subsequent approval by NPS of its Construction Cost. A New LSI Value may be adjusted over the term of a contract as described below.

Unadjusted LSI Value

“Unadjusted LSI Value” refers to Carryover LSI Value and/or New LSI Value prior to adjustment for inflation (CPI) and Depreciation. The Unadjusted LSI Value of a Carryover LSI Improvement is equal to its Determined LSI Value from the prior contract. The Unadjusted LSI Value of a New LSI Improvement is equal to its approved Construction Cost.

Carryover of Existing Improvements to a New LSI Contract**Prior LSI Contract to a New LSI Contract**

The Determined LSI Value of an LSI Improvement existing under a prior LSI Contract is carried over to the new contract as the Carryover LSI Value of the improvement. If there is more than one LSI Improvement, each Unit will have its own Carryover LSI Value.

Carryover of Possessory Interest from a PI Contract to an LSI Contract

Possessory Interest improvements under a PI Contract become Carryover LSI Improvements when a new LSI Contract is issued. The Carryover LSI Value in the LSI Improvements (former PI improvements) is the Determined LSI Value of the former PI improvements established under the terms of the PI Contract.

As discussed above, however, the value of Possessory Interest under a PI Contract typically is determined as an aggregate number even though the improvements in which there is Possessory Interest may consist of several Units. This aggregate number is carried forward to the LSI Contract as the total Carryover LSI Value of all LSI Improvements.

For example, if there were five Units of PI improvements under a PI Contract with a determined aggregate value of \$5 million, the allocation of the total \$5 million Carryover LSI Value to the Unit level may result in a determination that the Carryover LSI Value of three of the Units is \$1 million each, and the other two are \$1.5 million and \$.5 million respectively.

If an allocation to the Unit level has not been made by the commencement of the LSI Contract, NPS may require the new concessioner to negotiate allocation of the total Carryover LSI Value to the Unit level of the LSI Improvements, and, if negotiations fail, to submit to binding arbitration as to the allocation.

Carryover LSI Value Allocation

Accordingly, at the commencement of an LSI Contract, if the LSI Value has previously been allocated on a Unit basis, a Carryover LSI Value for each LSI Improvement (whether carried over from a prior LSI Contract or a prior PI Contract) is included in the contract’s Exhibit G. If an allocation to the Unit level has not previously been made, Exhibit G of the contract will include a list of all Units of the LSI Improvements and a total Carryover LSI Value of the LSI Improvements. (Allocation to the Unit level will subsequently occur and Exhibit G will be

amended accordingly.) If there are no existing LSI Improvements, the Carryover LSI Value in Exhibit G is entered as \$0.

Construction of New LSI Improvements during the Term of an LSI Contract

If a New LSI Improvement is constructed during the term of an LSI Contract, the New LSI Value of the improvement is tracked from the date of substantial completion.

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CHAPTER 6: LSI CREDITING PROCESS

Approval of LCEEs

An LSI Contract may have a Carryover LSI Value in existing LSI Improvements carried over from a prior LSI or PI Contract. During the term of an LSI Contract, a concessioner may be authorized or required to construct New LSI Improvements (i.e., construct a new Structure, undertake a Major Rehabilitation, or install or replace Fixtures in an existing Structure).

These actions are referred to as LCEEs (“LSI Credit Eligible Events”) in this Guide.

Each LCEE is a New LSI Improvement with an approved, separate New LSI Value. In addition, an LCEE involving the replacement of existing Fixtures results in the adjustment of the LSI Value in the LSI Improvement in which the Fixtures are installed as described below.

Most frequently, LCEEs are called for by the CFIP (“Concessioner Facilities Improvement Program”) provisions of an LSI Contract. However, not all the facility enhancements required by a CFIP are likely to qualify as LCEEs.

For example, many CFIP projects require a rehabilitation of an existing LSI Improvement that does not meet Major Rehabilitation requirements, or require the replacement of Personal Property.

Accordingly, the CFIP must be split into LCEE and non-LCEE components to properly administer LSI.

Pre-Construction (Preliminary) Approval of LCEEs

Under the requirements of the LSI Contract, the concessioner must submit to NPS for advance approval all proposed real property improvement projects and identify any that may result in LSI (LCEEs). NPS reviews proposed projects, and if an LCEE is involved, approves the proposed LCEE project only if it determines that, among other matters, the proposed LCEE:

- is to be constructed under an LSI Contract;
- is the construction of an LSI Improvement, i.e., is either (1) the construction of a new Structure; (2) a Major Rehabilitation; or, (3) the installation or replacement of a Fixture;
- is not Repair and Maintenance of an existing LSI Improvement;
- is either contractually required or is otherwise an appropriate and LSI construction activity;
- is to be paid for by the concessioner (but not with RMR funds);
- is supported by a concessioner’s estimate of Construction Costs that demonstrates the costs are valid and are all eligible Construction Costs as defined in Exhibit A of the LSI Contract;
- is consistent with NPS estimates of the Construction Cost, or, if not, can be duly reconciled with NPS estimates.

Post Construction (Final) Approval of LCEEs

In accordance with the LSI Contract, after a preliminarily approved LCEE is completed, the concessioner submits proposed Construction Costs and as-built drawings to NPS for final review and approval. NPS reviews the as-built drawings to determine that the project was built as preliminarily approved and reviews reported costs to determine that they are valid and to identify eligible Construction Costs for LSI purposes. Each reported cost must be reviewed separately in this regard as the Construction Costs of most LCEEs as submitted by concessioners may include a number of ineligible costs.

An essential requirement for a Construction Cost to be eligible for LSI is that it be capitalized by the concessioner in accordance with Generally Accepted Accounting Principles (GAAP), not expensed. NPS policy requires that the concessioner's Certified Public Accountant ("CPA") must certify that all Construction Costs have been capitalized by the concessioner.

In addition, to be LSI eligible, all Construction Costs (including wages) must be found to be no higher than those prevailing in the locality of the project.

NPS also determines that all other LSI-related contractual requirements have been met before giving final approval to the LCEE and determining final Construction Cost for LSI purposes. The LCEE results in a New LSI Improvement that has a New LSI Value as determined in the LCEE approval process.

Crediting LSI Value as a Result of LCEEs

The New LSI Value of a New LSI Improvement is established when an LCEE is completed and approved by NPS during the term of the contract. The calculation of the value or change in value varies depending on whether the LCEE is the construction of a new Structure, a Major Rehabilitation, or the installation or replacement of a Fixture.

LCEE: New Structure

When an LCEE is the construction of a new Structure, the new Structure is added to Exhibit G of the LSI Contract as a New LSI Improvement under the terms of the contract with the New LSI Value of the Structure. Going forward, this New LSI Value may be adjusted as a result of further LCEEs.

Note: As part of the review of the LCEE, NPS must identify the installation costs of Fixtures that were part of the LCEE so that this information is available in the event of a Fixture replacement LCEE at a later time.

LCEE: Major Rehabilitation

A Major Rehabilitation is treated as the construction of a New LSI Improvement and a New LSI Value for the Major Rehabilitation is established in the amount of its approved Construction Cost. Any Carryover LSI Value in the Structure as it existed prior to its rehabilitation continues to be carried forward as the Carryover LSI Value.

For example, a hotel with a Carryover LSI Value of \$500,000 undergoes a Major Rehabilitation. The approved Construction Cost of the Major Rehabilitation is \$1.3 million. After the rehabilitation is complete, the existing \$500,000 Carryover LSI Value in the Structure would remain and a New LSI Improvement would be established for the

Major Rehabilitation with a New LSI Value of \$1.3 million, making the aggregate LSI for the hotel \$1.8 million.

Note: This example assumes that the Major Rehabilitation did not involve the replacement of Fixtures. If it did, the continuing Carryover LSI Value of the pre-rehabilitation Structure would be adjusted as discussed below.

LCEE: New Fixture

When a new Fixture (a Fixture that does not replace an existing fixture) is installed in an existing LSI Improvement, it is tracked as a New LSI improvement with a separate New LSI Value. The LSI Value of the Structure to which the Fixture is attached is not adjusted.

LCEE: Fixture Replacement

When a concessioner has LSI in a Fixture that is replaced by a new Fixture, the LSI Value in the replaced Fixture is deducted, as applicable, from the LSI Value of the Structure to which the Fixture was attached, and, the Fixture replacement is tracked as a New LSI Improvement with a separate New LSI Value.

As such, a concessioner that proposes an LCEE that includes the replacement of an LSI Fixture in an existing LSI Improvement must provide documented evidence of the LSI Value of the Fixture to be replaced and the Construction Cost of the replacement Fixture. The concessioner, in effect, will only receive LSI Value for the difference between these two amounts. (It is possible to have a negative result, i.e., the Construction Cost of the replacement Fixture may be less than the LSI Value of the replaced Fixture).

Example – Concessioner has LSI in a Structure

Carryover LSI Value in total Structure =	\$200,000
Less the LSI Value in Replaced Fixture (old)	\$ 12,000
<u>Adjusted Carryover LSI Value in overall Structure =</u>	<u>\$188,000</u>
Construction Cost of replacement Fixture (new) =	\$ 23,000
<u>New LSI Value in Fixture Replacement =</u>	<u>\$ 23,000</u>

This methodology is also utilized where a Major Rehabilitation involves Fixture replacement.

Note: A LSI Contract may permit the concessioner, subject to NPS approval, to install or replace Fixtures in a non – LSI Structure that is assigned to the concessioner under the terms of the contract. If such an LCEE is approved by NPS, the concessioner obtains New LSI Value in the installed Fixtures as a New LSI Improvement. The concessioner does not obtain LSI as a whole in the Structure in which the Fixtures are installed.

Example – Concessioner does not have LSI in a Structure

Carryover LSI Value in Entire Structure =	\$ 0
Construction Cost of new or replacement Fixture=	\$ 23,000
<u>New LSI Value in Fixture Replacement =</u>	<u>\$ 23,000</u>

Case Study 1 - LCEE: Construction of a New LSI Improvement

CC-WASO002-09 was awarded in September, 2009. Its LSI Improvements consist of one Structure, the Great Bear Hotel. The contract requires the concessioner to construct a new addition for restaurant purposes to be attached to the hotel and accessible from the hotel main lobby. After receiving all required NPS prior approvals, the concessioner completed the construction in March, 2010 in accordance with the contract and exhibits. The concessioner submitted the following proposed Construction Costs totaling \$2,300,000 and requested LSI Value for the total amount:

Planning	\$150,000
Site work	\$300,000
Construction Labor and Material	\$1,135,000
Decorating Services	\$200,000
Dining Room and Kitchen Furnishings	\$500,000
Inspections	\$15,000

Questions:

1. Is this a LCEE?
2. Which proposed costs qualify as Construction Costs (and thus for LSI credit)?
3. Which costs do not qualify as Construction Costs? Why?
4. What is the New LSI Value for the project?

Answers:

1. Yes, construction of a new Structure under an LSI contract is an LCEE resulting in a New LSI Improvement. Additions to an existing building are considered as construction of a new Structure for LSI purposes.
2. The proposed costs that qualify as Construction Costs (and thus are eligible for LSI credit if capitalized by the concessioner) are planning, site work, construction labor and material, and inspections, as these are included in the definition of Construction Cost in Exhibit A of the contract.
3. Decorating services do not qualify for LSI Value because interior design services are not a Construction Cost as defined in Exhibit A of the contract. The dining room and kitchen furniture do not qualify for LSI Value because they are Personal Property.
4. The New LSI Value of the New LSI Improvement is: \$1,600,000 (planning, site work, construction labor and material, and inspections). Note that the new addition results in a separate New LSI Value (not an increase to the Carryover LSI Value of the existing hotel).

Case Study 2 - LCEE: Major Rehabilitation

CC-WASO002-09 LSI Improvements consist of one Structure, the Great Bear Hotel. The concession contract includes a \$900,000 Carryover LSI Value in the hotel building. The LSI Contract includes a CFIP for rehabilitation of the hotel to be started in October, 2010 and completed in October, 2011. The Pre-Rehabilitation Value of the hotel (usually as determined by a CAC) is \$1,500,000. The rehabilitation work includes replacement of existing Fixtures which have a Carryover LSI Value of \$20,000 and the installation of new Fixtures with an estimated Construction Cost of \$30,000. The concessioner is requesting approval of a new LSI Improvement (a Major Rehabilitation) with proposed Construction Costs of \$1,080,000, as follows:

Convert 20 rooms into suites	\$ 500,000
Rehabilitate the remaining bathrooms	\$ 300,000
Install fire protection system throughout hotel	\$ 80,000
Replace the furnishings in all rooms	\$ 200,000
Proposed Construction Cost:	\$ 1,080,000

Questions:

Does this project qualify as a Major Rehabilitation?

What are likely Fixture replacements?

Is there an adjustment to the Carryover LSI Value?

If this is a Major Rehabilitation, what is the New LSI Value in the New LSI Improvement?

What is the New LSI Value in the installed Fixtures?

Answers:

The project qualifies as a Major Rehabilitation of an existing Structure. It is a Major Rehabilitation because (1) it is "planned" in advance (in this case by NPS in the CFIP); (2) it is "Comprehensive" (as it encompasses significant actions concerning many Components of the Structure); (3) it is to be completed within eighteen months of construction commencement; and (4) the LSI eligible Construction Cost (assuming that the costs are capitalized by the concessioner) of the project exceeds fifty percent of the Pre-Rehabilitation Value of the hotel.

The room renovations and bathroom modernizations will contain some Fixtures (e.g. sinks, toilets). These items qualify as Fixture replacements. The following would not qualify as Fixture replacements:

The fire protection system is not a Fixture replacement (but its costs are included as part of the Construction Cost of the Major Rehabilitation).

Furniture is Personal Property. No LSI credit results.

The adjusted Carryover LSI Value in the hotel after the rehabilitation is \$880,000 (\$900,000 Carryover LSI Value minus \$20,000 Carryover LSI Value of replaced fixtures).

The New LSI Value in the New LSI improvement (Major Rehabilitation) is calculated as follows:

Convert 20 rooms into suites	\$500,000
Rehabilitate the remaining bathrooms	\$300,000
Install fire protection system throughout hotel	\$80,000
Subtotal:	\$880,000
<u>Less Cost of Fixture Replacements:</u>	<u>\$30,000</u>
New LSI Value in the New LSI Improvement:	\$850,000

The New LSI Value in the Fixture replacements (which are tracked separately) = \$30,000. There are now three LSI values to track:

Carryover LSI Value of \$880,000

New LSI Value for the Major Rehabilitation of \$850,000

New LSI Value for the Fixture replacements of \$30,000

Case Study 3 - LCEE: Fixture Replacement

CC-WASO002-09 Concession Facilities consist of one Carryover LSI Improvement, the Great Bear Hotel. The hotel has a Carryover LSI Value of \$900,000. The concessioner proposes to undertake CFIP required actions and is requesting the approval of LSI credit for the estimated Construction Cost of Fixture replacements in the amount of \$5,500. The Carryover LSI Value in a replaced bathroom sink is \$200. The concessioner's proposed Construction Costs are:

Replaced a sink in room 210's bathroom	\$300
Replaced the bathroom door in room 210	\$120
Replaced draperies in the 2 nd floor hall	\$80
Replaced carpet in the 2 nd floor hall	\$5,000
Total Cost:	\$5,500

Questions:

Would any of these activities qualify as a New LSI improvement?

How are the replacements that don't qualify as a new LSI Improvement classified?

Based on these answers, what would be the adjusted Carryover LSI Value in the hotel if the proposed project was approved by NPS (assuming the proposed Construction Costs were approved as valid after completion)?

Answers:

The sink replacement (assuming that its costs are capitalized by the concessioner) is the only activity that qualifies as a New LSI Improvement (as a Fixture replacement LCEE).

The non-LCEE activities are:

- bathroom door replacement – building materials
- draperies – Personal Property
- carpet replacement – building materials

The Carryover LSI Value of the replaced sink (\$200) is deducted from the hotel's Carryover LSI Value. This results in an adjustment to the Carryover LSI Value in the hotel building as follows:

Carryover LSI Value in Total Structure = \$900,000
Deduct \$200 (cost of replaced sink) = \$899,800

A New LSI Improvement is established with a New LSI Value of \$300.

CHAPTER 7: CONSUMER PRICE INDEX ADJUSTMENT

The value of an LSI Improvement is its Construction Cost, as adjusted for inflation, less Depreciation.

The Unadjusted LSI Values of the contract's LSI Improvements (Carryover LSI Improvements and New LSI Improvements, as applicable), can be periodically adjusted by the applicable CPI Adjustment Rate to obtain their CPI Adjusted LSI Value.

CPI Adjustment Rate

The first step in calculating a CPI Adjusted LSI Value is to determine the applicable CPI Adjustment Rate.

The CPI Adjustment rate is calculated on the basis of the Beginning CPI Index and the Ending CPI Index. The Beginning CPI Index starting point (date) for Carryover LSI Improvements is the CPI value for the month prior to the effective date of the contract. The Beginning CPI Index starting point (date) for New LSI Improvements is the CPI value for the month prior to the Substantial Completion date of the applicable improvement.

The table below is a sample of the CPI Index table found on the www.bls.gov website.

Sample Consumer Price Index Data – All Urban Consumers

U.S. Department of Labor													
Bureau of Labor Statistics													
Washington, D. C. 20212													
Consumer Price Index													
All Urban Consumers - (CPI-U)													
U.S. City Average - All Items													
Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Avg.
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	177.1
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	184.0
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	188.9
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	195.3
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	201.6
2007	202.4	203.5	205.4	206.7	207.9	208.4	208.3	207.9	208.5	208.9	210.2	210.0	207.3
2008	211.1	211.7	213.5	214.8	216.6	218.8	219.9	219.1	218.8	216.6	212.4	210.2	215.3
2009	211.1	212.2	212.7	213.2	213.9	215.7	215.4	215.8	215.9	216.2	216.3	215.9	214.5
2010	216.7	216.7	217.6	218.0	218.2	217.9	218.0	218.3	218.4	218.7	218.8	219.2	218.1
2011	220.2	221.3	223.5	224.9	225.9	225.7	225.9	226.5	226.9	226.4	226.2	225.7	224.9

The Bureau of Labor Statistics website (www.bls.gov) provides CPI information. The indices are updated on a monthly basis. The CPI used for LSI value adjustment is the **"National Consumer Price Index - All Urban Consumers."**

To find the CPI Index for January 2005 (Beginning CPI Index), move down the Year column to year 2005 and go across the row to January. The Beginning CPI Index is 190.7.

To find the Ending CPI Index for September, 2006, go to the intersection of 2006 and September. The Ending CPI Index is 202.9.

The CPI Adjustment Rate is the Ending CPI Index divided by the Beginning CPI Index or $202.9 / 190.7$. The result is the CPI Adjustment Rate for that time period: 1.064.

Calculating CPI Adjusted LSI Value

The next step in calculating CPI Adjusted LSI Value is to apply the CPI Adjustment Rate to the applicable Unadjusted LSI Value of the LSI Improvement.

If the Unadjusted LSI Value is \$10,000 for a particular LSI Improvement, and the CPI Adjustment Rate is 1.064, the CPI Adjusted LSI Value in the LSI Improvement is \$10,640 ($\$10,000 \times 1.064$).

Case Study - CPI Adjustments

CC-WASO002-99 LSI Improvements consist of one Structure, the Great Bear Hotel. In July 1999 a contract was issued for 5 years. The hotel had a Carryover LSI Value of \$1,250,000. No LCEEs occurred during the term of the contract.

Questions:

1. What is the Beginning CPI Index?
2. What is the contract Ending CPI Index?
3. What is the CPI Adjustment Rate?
4. What is the CPI Adjusted LSI Value?

Answers:

1. The Beginning CPI Index is 166.2
2. The Ending CPI Index is 189.7
3. The CPI Adjustment Rate is calculated by dividing 189.7 by 166.2 = 1.141
4. The CPI Adjusted LSI Value is \$1,426,250 ($1.141 \times \$1,250,000$)

CHAPTER 8: ESTIMATING DEPRECIATION

The value of an LSI Improvement (LSI Value) is the improvement's Construction Cost, as adjusted for inflation (CPI), less Depreciation the improvement has incurred during the term of the applicable LSI Contract.

The amount of Depreciation the improvement is expected to have incurred at a specific point in time is estimated by NPS under the following methodology.

An Annual Estimated Depreciation Percentage ("AEDP") is calculated for each of the contract's LSI Improvements at the beginning of the LSI Contract and an AEDP is calculated for New LSI Improvements as they are placed in service during the contract term. The AEDP is derived using the estimated Remaining Life and the Design Life values attributed to each Component assessed under a CAC with respect to Carryover LSI Improvements and from data obtained in the LCEE approval process with respect to New LSI Improvements.

(Note: If a CAC has not been conducted prior to the commencement of an LSI Contract, straight line depreciation based on Design Life and actual age is used instead of the AEDP method. For example, if under a 10 year contract, a roof installed with a \$100,000 Carryover LSI Value has a forty year Design Life, Depreciation accrues at 2.5% (or 1/40) per year, or 25% over the LSI Contract term.)

The AEDP for any particular LSI Improvement (or Component thereof) at a particular point in time is calculated by dividing one by the estimated Remaining Life of the Asset.

The AEDP can be applied at any point during the term of the contract to estimate the Depreciation percentage that will occur [or has occurred] after contract commencement. To calculate the estimated Depreciation percentage for an entire Contract Term for any particular LSI Improvement (or Component thereof), multiply the AEDP for the LSI Improvement (or Component thereof) by the number of remaining years in the Contract Term.

For example, assume that a roof (a Component of a Carryover LSI Improvement) with a Carryover LSI Value of \$100,000 has a Design Life of 40 years and a Remaining Life of 25 years at the beginning of a 10-year contract.

To calculate the AEDP:

Divide one by the Remaining Life of the roof (25) = .04 or 4% AEDP per year.

To calculate the estimated Depreciation of the roof for the (remaining) Contract Term:

Multiply the AEDP (4%) by the Contract Term (10 years) = .4 or 40% estimated Depreciation over the Contract Term.

From time to time, a CAC may be conducted during the term of the contract. Data from this CAC, which is based on an actual inspection, will be utilized to adjust the AEDP if necessary.

For example, if a subsequent CAC undertaken near the end of the term of the contract estimates that the roof has in fact only depreciated by 15% (instead of the 40% estimated to occur based on the AEDP) during the term of the contract, the AEDP would be changed to 1.5% (15% divided by 10 years) for that Component.

The difference in Depreciation percentages in this example results because the initial AEDP is a theoretical, forward-looking estimate based on industry-wide projections of the average Design Life of a Component. A subsequent CAC during the term of a contract includes a new "on the ground" estimate that will take into account the current physical condition of the Asset and its Components. The re-calculated AEDP incorporates the findings of the CAC with respect to observed Depreciation. For example, the roof may have been repaired from time to time over and above usual efforts so that its Remaining Life was extended beyond the period estimated in the original CAC. Accordingly, a CAC depreciation estimate should be given more credibility than an initial AEDP estimate because the CAC is based on actual physical inspection of the property by a professional engineer and/or cost estimator.

Case Study – Depreciation Estimate

CC-WASO002-99 LSI Improvements consist of one Carryover LSI Improvement, the Great Bear Hotel. The contract was issued in 1999 with a 12 year term. At that time, the hotel's Design Life was 75 years and its Remaining Life was 70 years. The Carryover LSI Value was \$1,250,000. Assume that the CPI Adjusted LSI Value of the hotel was \$1,750,000 at the end of the contract term and a CAC was completed in 2010 that identified the Remaining Life as 64 years.

Questions:

1. What AEDP was identified in 1999?
2. What is the estimated percentage of Depreciation over the term of the concession contract in 1999?
3. Using the 2010 CAC, what is the estimated Depreciation that occurred during the contract term?

Answers:

1. In 1999, the AEDP was 1.43%. $1 \text{ divided by } 70 \text{ (Remaining Life)} = .0143 \text{ or } 1.43\%$ multiplied by 12 (remaining years in Contract Term))
2. The estimated percentage Depreciation projected for the Contract Term in 1999 is 17.16%. AEDP (1.43%) multiplied by the number of years in the Contract Term (12) equals 17.16%
3. 8.57%. In 1999, it was estimated that the hotel would depreciate approximately 17.2% (1.43% times 12) over the term of the contract. The Depreciation during the Contract Term based on the 2010 CAC is calculated by dividing the change in

Remaining Life of the hotel from the beginning to the end of the contract, by the original Remaining Life of the hotel. The difference between the Remaining Life at the beginning of the contract, 70 years, and the Remaining Life at 2010, 64 years, is 6 years. Dividing 6 years by the estimate of the Remaining Life at the beginning of the contract, 70 years, equals 0.0857 or 8.57%, the estimated Depreciation over the life of the contract.

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CHAPTER 9: DETERMINING A FINAL ESTIMATED VALUE

During the term of an LSI Contract or upon its expiration, a Final Estimated LSI Value may be calculated by NPS under the methodology described above for purposes of, among other matters, negotiation or arbitration of LSI Value with a concessioner.

However, particularly with respect to Depreciation (but also with respect to other aspects of LSI Value), NPS may undertake additional estimates of LSI Value under different methodologies. The position of NPS as to what the Final Estimated LSI Value for any particular LSI Improvement is may differ significantly from the estimates provided by the methodology described in this Guide. The particular facts and circumstances of the LSI Contract and LSI Improvements involved, and applicable law, must be specifically assessed in order for NPS to take a final position on LSI Value for purposes of establishing a Determined LSI Value or otherwise.

APPENDIX 1: ACRONYMS

AEDP – ANNUAL ESTIMATED DEPRECIATION PERCENTAGE

ASTM – AMERICAN SOCIETY FOR TESTING AND MATERIALS

CAC – CONDITION ASSESSMENT COMPREHENSIVE

CFIP – CONCESSIONER FACILITY IMPROVEMENT PLAN

CFR – CODE OF FEDERAL REGULATIONS

CPA – CERTIFIED PUBLIC ACCOUNTANT

CPI – CONSUMER PRICE INDEX

GAAP – GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

LCEE – LSI CREDIT ELIGIBLE EVENT

LSI – LEASEHOLD SURRENDER INTEREST

NPS – NATIONAL PARK SERVICE

PI – POSSESSORY INTEREST

PL – PUBLIC LAW

RMR – REPAIR AND MAINTENANCE RESERVE

APPENDIX 2: GLOSSARY OF TERMS USED

1965 Act – Also known as Public Law 89-249. This was the predecessor to the 1998 Act (PL 105-391).

1998 Act – Also known as Public Law 105-391, or the National Parks Omnibus Management Act of 1998.

36 CFR Part 51 - Regulations issued in the Federal Register on April 17, 2000 to implement the 1998 Act.

Annual Estimated Depreciation Percentage (AEDP) – The amount of estimated Depreciation that will occur on an annual basis during the term of an LSI contract expressed as a percentage.

Beginning CPI Index – CPI Index on the effective date of the contract for Carryover LSI Improvements or Substantial Completion date for applicable New LSI Improvements.

Capital Improvement - From Standard Contract Exhibit A. A Capital Improvement is a Structure, Fixture, or Non-Removable equipment provided by the Concessioner pursuant to the terms of the Contract and located on lands of the United States within the Area. A Capital Improvement does not include any interest in land. Additionally, a Capital Improvement does not include any interest in Personal Property of any kind including, but not limited to, vehicles, boats, barges, trailers, or other objects, regardless of size, unless an item of Personal Property becomes a Fixture.

Carryover LSI Improvement - An improvement in which LSI under a prior contract is carried over to a new contract.

Carryover LSI Value – The Determined LSI Value in an existing LSI Improvement that is carried over from a prior contract to a new LSI Contract.

Component - Elements that contribute to a Structure's form and functionality. Components include such items as foundations, walls, windows, doors, roof, floors, and electrical, plumbing and heating elements. A dock is a component of a Marina.

Component Renewal – The planned replacement of a Component at the end of its Useful Life. Component Renewal/Replacement examples include the replacement of roofs; electrical distribution systems; heating and cooling systems; pavement replacement for roads, parking lots and walkways; and the rehabilitation of windows and/or replacement of windows and doors. Component Renewal/Replacement includes the deconstruction of the existing Component or system and Replacement with a new system of equal capability and performance. These actions recur on a periodic cycle of greater than seven years.

Concession Contract - From 36 CFR 51.3. A concession contract means a binding written agreement between the Director and a concessioner entered under the authority of the

1998 Act or the 1965 Act that authorizes the concessioner to provide certain visitor services within a park area under specified terms and conditions.

Concession Facilities - All Area lands assigned to the Concessioner under a Contract and all real property improvements assigned to or constructed by the Concessioner under a Contract.

Concession Facilities Improvement Program (CFIP) - A contractually required improvement program that is funded by the concessioner. See LSI Contract (Section 9).

Condition Assessment - From Director's Order 80. The inspection and documentation of the condition of the features of an asset as measured against the applicable maintenance or condition standards. It provides the basis for long-range maintenance planning as well as annual work plans and budgets.

Condition Assessment Comprehensive (CAC) - From Director's Order 80. The review and validation of the Concession Facilities inventory, including inspection of assets identifying in-depth deficiencies, and documenting the condition as measured against the applicable maintenance or condition standards. It provides the basis for long-range maintenance planning as well as annual work plans and budgets.

Construction Cost(s) – From LSI Contract Exhibit A.

Construction cost of a Capital Improvement means the total of the incurred **eligible direct and eligible indirect costs** necessary for constructing or installing the Capital Improvements that are **capitalized by the concessioner** in accordance with Generally Accepted Accounting Principles (GAAP).

Eligible direct costs means the sum of all incurred **capitalized** costs (in amounts no higher than those prevailing in the locality of the project), that are necessary both for the construction of a capital improvement and are typically elements of a construction contract. Eligible direct costs may include, without limitation, the costs of (if capitalized in accordance with GAAP and in amounts no higher than those prevailing in the locality of the project): building permits; materials, products and equipment used in construction; labor used in construction; security during construction; contractor's shack and temporary fencing; material storage facilities; power line installation and utility costs during construction; performance bonds; and contractor's (and subcontractor's) profit and overhead (including job supervision, worker's compensation insurance and fire, liability, and unemployment insurance).

Eligible indirect costs means, except as provided in the last sentence of this definition, the sum of all other incurred **capitalized** costs (in amounts no higher than those prevailing in the locality of the project) necessary for the construction of a capital improvement. Eligible indirect costs may include, without limitation, the costs of (if capitalized in accordance with GAAP and

in amounts no higher than those prevailing in the locality of the project): architectural and engineering fees for plans; plan checks; surveys to establish building lines and grades; environmental studies; if the project is financed, the points, fees or service charges and interest on construction loans; all risk insurance expenses and ad valorem taxes during construction. The actual capitalized administrative expenses (in amounts no higher than those prevailing in the locality of the project) of the Concessioner for direct, on-site construction inspection are eligible indirect costs. Other administrative expenses of the Concessioner are not eligible indirect costs.

Consumer Price Index (CPI) - From LSI Contract Exhibit A. Consumer Price Index means the national "Consumer Price Index-All Urban Consumers" published by the Department of Labor.

CPI Adjusted LSI Value – Carryover LSI Value or New LSI Value, as applicable, after adjustment for inflation.

CPI Adjustment Rate – Percentage rate that represents the change in inflation over the term of an LSI Contract (or other specified period of time). It is calculated by dividing the Beginning CPI Index by the Ending CPI Index.

Deferred Maintenance - Maintenance that was not timely or properly conducted.

Depreciation – For LSI Value purposes and as used in this Guide, Depreciation refers to the physical deterioration of LSI Improvements.

Design Life - The duration in years of the Useful Life of each real property asset or Component estimated as of the time of construction or manufacture. The estimate assumes that specified maintenance is performed.

Determined LSI Value - The value of an LSI Improvement as formally established through the procedures described in the applicable Concession Contract. A Determined LSI Value is not an estimate of LSI Value but a legally binding value determination.

Ending CPI Index - CPI Index on the date of contract expiration or date an LSI Improvement ceases to exist.

Estimated Final LSI Value – The estimate of LSI Value in LSI Improvements after adjustment for inflation and Depreciation.

Fixture - From LSI Contract Exhibit A. Fixtures and non-removable equipment are manufactured items of Personal Property of independent form and utility necessary for the basic functioning of a Structure that are affixed to and considered to be part of the Structure such that title is with the Director as real property, once installed. Fixtures and non-removable equipment do not include building materials (e.g., wallboard, flooring, concrete, cinder blocks, steel beams, studs, window frames, windows, rafters, roofing, framing, siding, lumber, insulation, wallpaper, paint, etc.). Because of their special

circumstances, floating docks (but not other types of floating property) that may be constructed by the concessioner pursuant to the terms of the LSI Contract are considered to be non-removable equipment for Leasehold Surrender Interest purposes only. Except as otherwise indicated in LSI Contract Exhibit A, the term "fixture" includes the term "non-removable equipment."

Generally Accepted Accounting Principles (GAAP) - The standard framework of guidelines for financial accounting used in any given jurisdiction. GAAP includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in preparing financial statements.

Leasehold Surrender Interest (LSI) - From LSI Contract Exhibit A. Leasehold Surrender Interest means a right to payment in accordance with this contract for related Capital Improvements that the Concessioner makes or provides within the area on lands owned by the United States pursuant to the terms and conditions of this contract. The existence of a Leasehold Surrender Interest does not give the Concessioner, or any other person, any right to conduct business in a park area, to utilize the related Capital Improvements, or to prevent the Director or another person from utilizing the related Capital Improvements. The existence of a Leasehold Surrender Interest does not include any interest in the land on which the related Capital Improvements are located.

LSI Contract – A Category I Standard Language Concession Contract awarded under the 1998 Act.

LSI Credit Eligible Event (LCEE) –The construction of a Structure, Major Rehabilitation, or Fixture installation or replacement, that is eligible to be considered as a New LSI Improvement. An LCEE event does not guarantee LSI approval: the activity must comply with all LSI contractual requirements to result in LSI approval and credit.

LSI Improvement –The general term for real property improvements in which LSI is recognized under an LSI Contract.

LSI Value – The general term referring to the value of an LSI Improvement.

Major Rehabilitation - From LSI Contract Exhibit A. Major Rehabilitation means a planned, Comprehensive rehabilitation of an existing Structure that:

1. The Director approves in advance and determines is completed within 18 months from start of the rehabilitation work (unless a longer period of time is approved by the Director in special circumstances); and
2. The Construction Cost of which exceeds fifty percent of the Pre-Rehabilitation Value of the Structure.

New LSI Improvement - An LSI Improvement constructed during the term of a current LSI Contract.

New LSI Value - The value of a New LSI Improvement upon completion and after approval of its Construction Cost.

Non-removable Equipment – See Fixture.

Personal Property - Manufactured items of independent form and utility including equipment and objects solely for use by the concessioner to conduct business. Personal Property includes, without limitation, removable equipment, furniture and goods necessary for concessioner operations under the Concession Contract.

PI Contract - A Concession Contract awarded under the 1965 Act which provides for Possessory Interest.

Possessory Interest (PI) - A compensable interest granted to concessioners under the 1965 Act for capital investments made in real property improvements. Possessory Interest converts to LSI as Carryover LSI Improvements under an LSI Contract.

Pre-Rehabilitation Value – Replacement Cost of a Structure less depreciation prior to a Major Rehabilitation.

Remaining Life – The remaining serviceable life for a real property asset (including a Component or a Fixture) that represents the number of years the asset is projected to perform its design function or intended purpose. The remaining service life also represents the projected timeframe prior to the replacement of the asset.

Repair and Maintenance - The term Repair and Maintenance for LSI purposes refers to all actions taken to repair and maintain the condition of LSI Improvements, except that, Repair and Maintenance for LSI purposes does not include the construction of new Structures, Major Rehabilitations, or the installation or replacement of Fixtures. Accordingly, Repair and Maintenance activities do not result in LSI, no matter how large or expensive.

Repair and Maintenance Reserve - A Repair and Maintenance Reserve is a fund established and managed by the concessioner. Its funds are used to carry out, on a project basis in accordance with LSI Contract Exhibits F and H, Repair and Maintenance of Concession Facilities that are non-recurring within a seven-year time frame. See LSI Contract Section 10. Reserve funds may not be used to construct or install LSI Improvements, but may be used for Component Renewal.

Replacement Cost - The present cost of replacing an existing Capital Improvement with one of utility equal to the existing Structure, using modern materials and current standards, design and layout.

Structure – From Exhibit A to the LSI Contract. A building, dock, or similar edifice affixed to the land so as to be part of the real estate. A Structure may include both constructed infrastructure (e.g., power and sewer lines) and constructed site improvements (e.g., paved roads, retaining walls, sidewalks, paved driveways, parking areas) that are permanently affixed to the land so as to be part of the real estate and that are in direct support of the

use of a building, dock, or similar edifice. Landscaping that is integral to the construction of a Structure is considered as part of a Structure. Interior furnishings that are not fixtures are not part of a Structure.

Substantial Completion – The status of a Capital Improvement construction project when the project is substantially complete and NPS determines it is ready for use and/or occupancy.

Trade Fixtures - For LSI purposes, are Personal Property that is attached to and/or located within real property for business purposes, such as display counters. Trade Fixtures, even though commonly referred to as “fixtures,” often consist of items of Personal Property that do not meet the LSI definition of a Fixture.

Unadjusted LSI Value - Carryover LSI Value and/or New LSI Value prior to adjustment for inflation and Depreciation.

Uniformat II - A format developed by the American Society for Testing and Materials (ASTM) to identify the main Components that comprise a typical Structure.

Unit – An individual Structure when an LSI Contract involves more than one LSI Improvement.

Useful Life- The number of years determined at a particular point in time after a real property asset's construction or manufacture that the asset can be used for its intended purpose. Useful Life also means the projected timeframe to the replacement of the asset.

APPENDIX 3: FIXTURE TABLES

Replacement (This applies to individual replacements only. This table is a guide and additional due diligence may be needed to fully determine if a fixture replacement has occurred and if it qualifies for LSI credit.)	Building Materials Building materials do not qualify as fixture replacements.	Personal Property Independent form and function?	Necessary for the basic functioning of the structure?	Affixed to the Structure?	Part of the reality once installed?	Qualifies as a Fixture replacement?
Air Conditioner - Central	No	Yes	Yes	Yes	Yes	Yes
Air Conditioner - Window	No	Yes	No	N/A	N/A	No
Air Conditioning and Ventilation Vents	Yes	N/A	N/A	N/A	N/A	No
Artwork	No	Yes	No	N/A	N/A	No
Awnings	No	Yes	No	N/A	N/A	No
Banquettes	No	Yes	No	N/A	N/A	No
Basketball Hoop	No	Yes	No	N/A	N/A	No
Bathroom Dispensers	No	Yes	No	N/A	N/A	No
Bathtub	No	Yes	Yes	Yes	Yes	Yes
Beams	Yes	N/A	N/A	N/A	N/A	No
Boiler	No	Yes	Yes	Yes	Yes	Yes
Booths – Restaurant	No	Yes	No	N/A	N/A	No
Cabinets – Moveable	No	Yes	No	N/A	N/A	No
Cabinets – Permanently Affixed to Wall	No	Yes	No	N/A	N/A	No
Carpeting	Yes	N/A	N/A	N/A	N/A	No
Ceiling Tiles	Yes	N/A	N/A	N/A	N/A	No
Chandeliers	No	Yes	No	N/A	N/A	No
Cinder Blocks	Yes	N/A	N/A	N/A	N/A	No
Clothes Dryer	No	Yes	No	N/A	N/A	No
Clothes Washer	No	Yes	No	N/A	N/A	No
Coat Rack – Custom Built to Room	No	No	N/A	N/A	N/A	No
Coat Rack - Free standing	No	Yes	No	N/A	N/A	No
Coat Rack - Wall mounted	No	Yes	No	N/A	N/A	No
Computer	No	Yes	No	N/A	N/A	No
Concrete	Yes	N/A	N/A	N/A	N/A	No
Conveyor Systems	No	Yes	No	N/A	N/A	No
Dishwasher	No	Yes	No	N/A	N/A	No
Display cases	No	Yes	No	N/A	N/A	No
Docks – Floating	No	N/A	N/A	N/A	N/A	Yes
Door Knobs	Yes	N/A	N/A	N/A	N/A	No
Doors - exterior or interior	Yes	N/A	N/A	N/A	N/A	No
Drapery & Rods	No	Yes	No	N/A	N/A	No
Ductwork	Yes	N/A	N/A	N/A	N/A	No
Electrical Conduit	Yes	N/A	N/A	N/A	N/A	No
Electrical Outlets	Yes	N/A	N/A	N/A	N/A	No
Electrical Panel	Yes	N/A	N/A	N/A	N/A	No

Replacement (This applies to individual replacements only. This table is a guide and additional due diligence may be needed to fully determine if a fixture replacement has occurred and if it qualifies for LSI credit.)	Building Materials Building materials do not qualify as fixture replacements.	Personal Property Independent form and function?	Necessary for the basic functioning of the structure?	Affixed to the Structure?	Part of the reality once installed?	Qualifies as a Fixture replacement?
Electrical Wall Plate Cover	Yes	N/A	N/A	N/A	N/A	No
Electrical Wiring	Yes	N/A	N/A	N/A	N/A	No
Elevators	No	No	N/A	N/A	N/A	No
Emergency Generator - Hard wired to electrical panel	No	Yes	No	N/A	N/A	No
Emergency Generator - Moveable	No	Yes	No	N/A	N/A	No
Escalator	No	No	N/A	N/A	N/A	No
Exercise equipment	No	Yes	No	N/A	N/A	No
Faucets - Bathroom	No	Yes	Yes	Yes	Yes	Yes
Faucets - Kitchen	No	Yes	No	N/A	N/A	No
Fencing	No	Yes	No	N/A	N/A	No
Fire Extinguisher	No	Yes	No	N/A	N/A	No
Fire Protection System	No	No	N/A	N/A	N/A	No
Fireplaces	No	No	N/A	N/A	N/A	No
Folding Chairs	No	Yes	No	N/A	N/A	No
Folding Tables	No	Yes	No	N/A	N/A	No
Framing	Yes	N/A	N/A	N/A	N/A	No
Fuel Tank - Aboveground	No	Yes	No	N/A	N/A	No
Fuel Tank - Below ground	No	Yes	No	N/A	N/A	No
Hand Dryer	No	Yes	No	N/A	N/A	No
Hoists	No	Yes	No	N/A	N/A	No
Hot Water Heater	No	Yes	Yes	Yes	Yes	Yes
HVAC Ductwork System	No	No	N/A	N/A	N/A	No
Insulation	Yes	N/A	N/A	N/A	N/A	No
Kitchen Exhaust Fan	No	Yes	No	N/A	N/A	No
Lamps	No	No	N/A	N/A	N/A	No
Linoleum	Yes	N/A	N/A	N/A	N/A	No
Locksets - Exterior or interior Door	Yes	N/A	N/A	N/A	N/A	No
Lumber	Yes	N/A	N/A	N/A	N/A	No
Microwave	No	Yes	No	N/A	N/A	No
Molding and Baseboards	Yes	N/A	N/A	N/A	N/A	No
Paint	Yes	N/A	N/A	N/A	N/A	No
Partitions	No	Yes	No	N/A	N/A	No
Piping	Yes	N/A	N/A	N/A	N/A	No
Planters	No	Yes	No	N/A	N/A	No
Rafters	Yes	N/A	N/A	N/A	N/A	No
Ramps (auto repair)	No	Yes	No	N/A	N/A	No
Ramps (for access)	No	No	N/A	N/A	N/A	No

Replacement (This applies to individual replacements only. This table is a guide and additional due diligence may be needed to fully determine if a fixture replacement has occurred and if it qualifies for LSI credit.)	Building Materials Building materials do not qualify as fixture replacements.	Personal Property Independent form and function?	Necessary for the basic functioning of the structure?	Affixed to the Structure?	Part of the reality once installed?	Qualifies as a Fixture replacement?
Refrigerator/Freezer - Standard	No	Yes	No	N/A	N/A	No
Refrigerator/Freezer - Walk In	No	Yes	No	N/A	N/A	No
Roof Drain System	No	No	N/A	N/A	N/A	No
Roof Vents	Yes	N/A	N/A	N/A	N/A	No
Saddle	No	Yes	No	N/A	N/A	No
Satellite Dish	No	Yes	No	N/A	N/A	No
Sauna	No	No	N/A	N/A	N/A	No
Security/Alarm System	No	No	N/A	N/A	N/A	No
Serving Window - Pull down	No	Yes	No	N/A	N/A	No
Shelves	No	Yes	No	N/A	N/A	No
Shower	No	Yes	Yes	Yes	Yes	Yes
Siding - Brick, aluminum, vinyl, wood	Yes	N/A	N/A	N/A	N/A	No
Sink - Bathroom	No	Yes	Yes	Yes	Yes	Yes
Sink - Kitchen	No	Yes	No	N/A	N/A	No
Smoke Detector – battery	No	Yes	Yes	No	N/A	No
Smoke Detector - hard wired	No	Yes	Yes	Yes	Yes	Yes
Stairs	No	No	N/A	N/A	N/A	No
Steel Beams	Yes	N/A	N/A	N/A	N/A	No
Stove/Oven	No	Yes	No	N/A	N/A	No
Studs	Yes	N/A	N/A	N/A	N/A	No
Subfloor	Yes	N/A	N/A	N/A	N/A	No
Subfloor	No	No	N/A	N/A	N/A	No
Telephone - Wiring	Yes	N/A	N/A	N/A	N/A	No
Telephone -Handsets	No	Yes	No	N/A	N/A	No
Tents - all canvas	No	Yes	No	N/A	N/A	No
Tents - Canvas over Permanent Wood Frames	No	Yes	No	N/A	N/A	No
Towel Dispenser	No	Yes	No	N/A	N/A	No
Trash Compacter	No	Yes	No	N/A	N/A	No
Vacuum System- Built in	No	No	N/A	N/A	N/A	No
Vending Machines	No	Yes	No	N/A	N/A	No
Wall Beds	No	Yes	No	N/A	N/A	No
Wall Sconces – not primary source lighting	No	Yes	No	N/A	N/A	No
Wall Sconces – primary source	No	Yes	Yes	Yes	Yes	Yes
Wallboard	Yes	N/A	N/A	N/A	N/A	No
Wallpaper	Yes	N/A	N/A	N/A	N/A	No
Water Pipes	Yes	N/A	N/A	N/A	N/A	No
Water Softener	No	Yes	No	N/A	N/A	No
Window Blinds	No	Yes	No	N/A	N/A	No

Replacement (This applies to individual replacements only. This table is a guide and additional due diligence may be needed to fully determine if a fixture replacement has occurred and if it qualifies for LSI credit.)	Building Materials Building materials do not qualify as fixture replacements.	Personal Property Independent form and function?	Necessary for the basic functioning of the structure?	Affixed to the Structure?	Part of the reality once installed?	Qualifies as a Fixture replacement?
Window Frames	Yes	N/A	N/A	N/A	N/A	No
Windows Screens	Yes	N/A	N/A	N/A	N/A	No
Wood Flooring	Yes	N/A	N/A	N/A	N/A	No

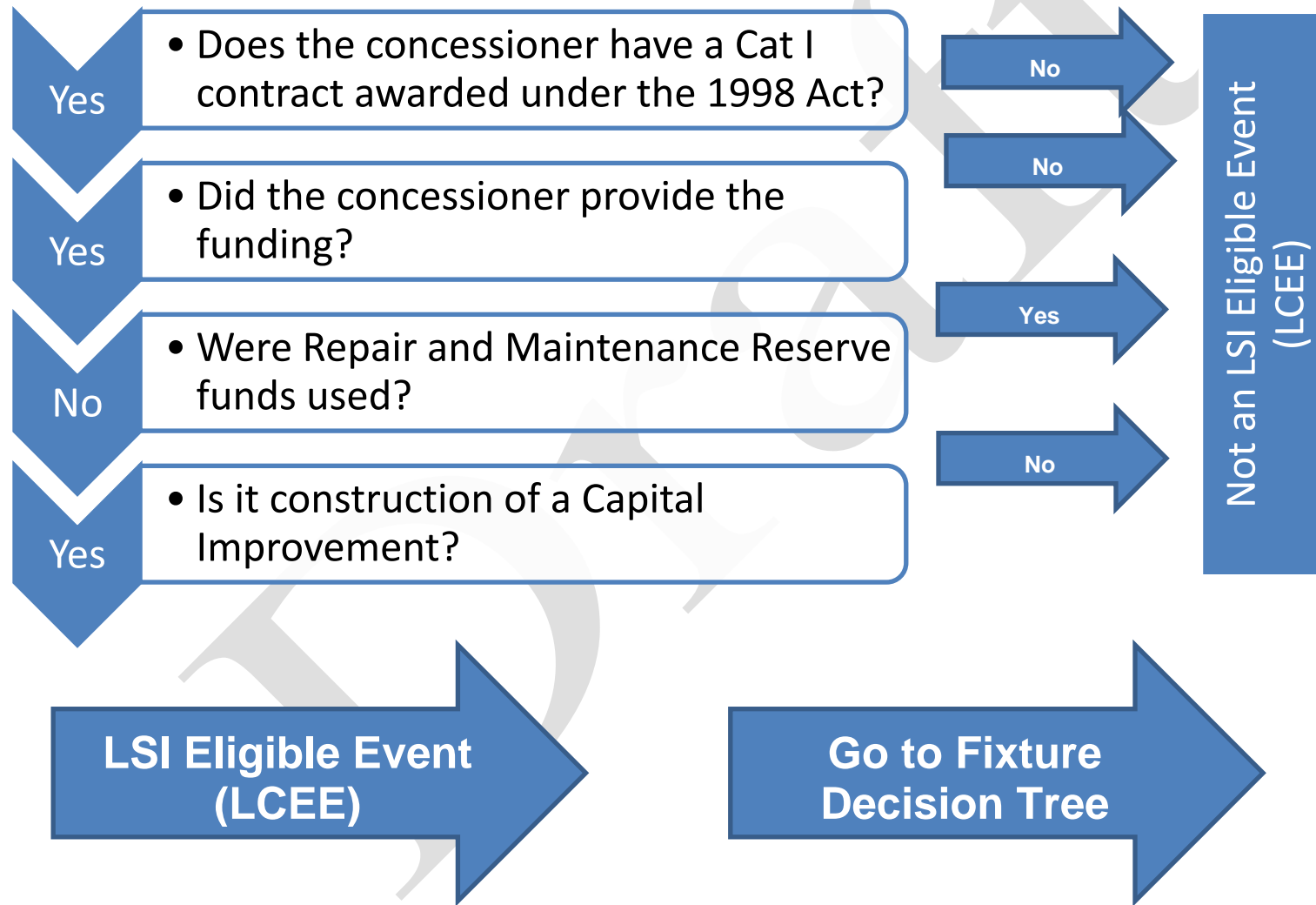
APPENDIX 4: ELEMENTS OF A TYPICAL BUILDING

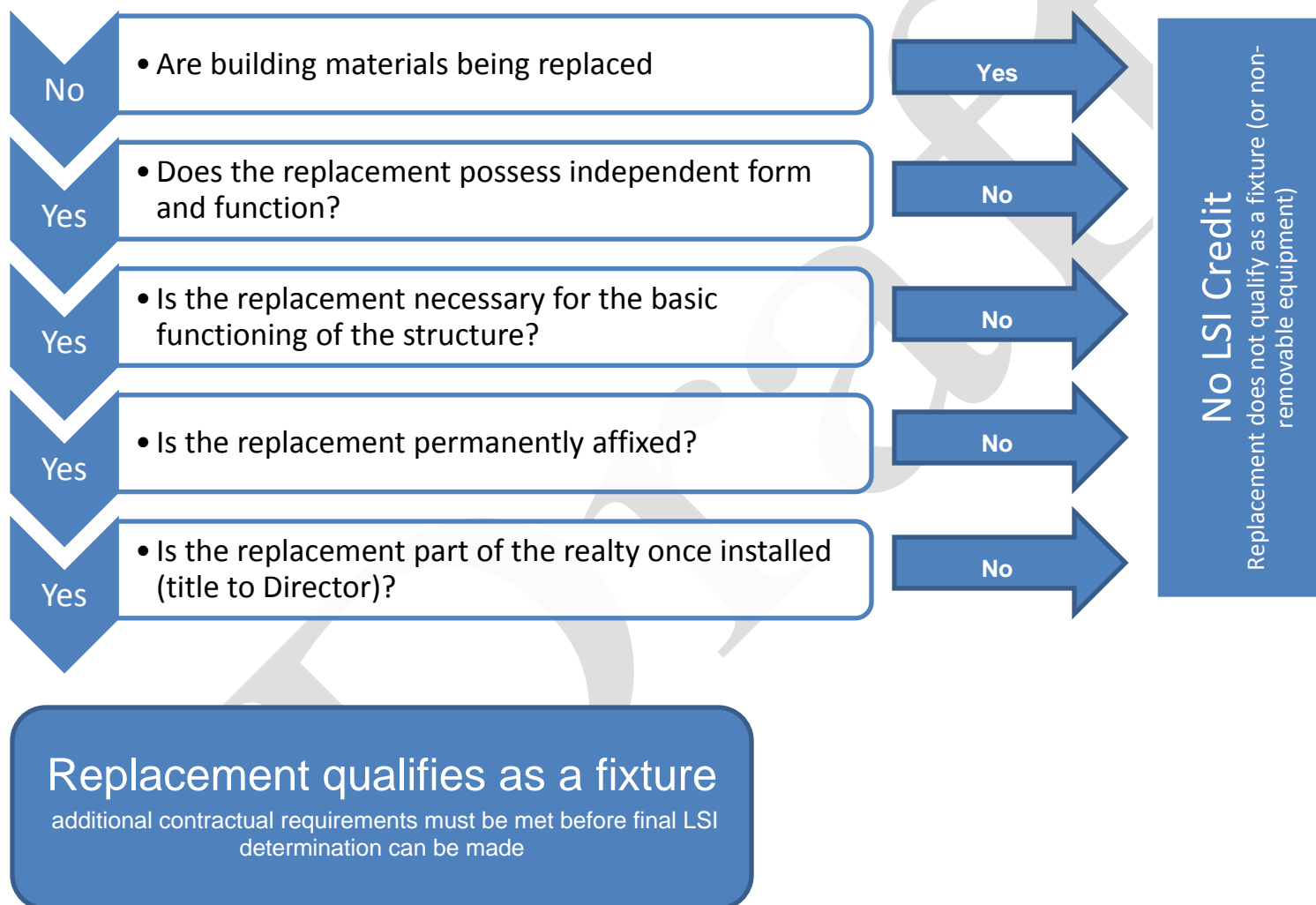
A	Substructure	<ul style="list-style-type: none"> 1 Footings 2 Slabs 3 Piles 4 Columns 5 Piers 6 Beams 7 Foundation walls
B	Exterior Description	<ul style="list-style-type: none"> 1 Framing 2 Insulation 3 Ventilation 4 Exterior walls 5 Exterior doors 6 Windows, storm windows, and screens 7 Façade 8 Roof and drain system 9 Chimneys, stacks, and vents
C	Interior Description	<ul style="list-style-type: none"> 1 Interior walls, partitions, and doors 2 Division of space <ul style="list-style-type: none"> a Storage areas b Stairs, ramps, elevators, escalators, and hoists 3 Interior supports <ul style="list-style-type: none"> a Beams, columns, and trusses b Flooring system (subflooring) c Ceilings 4 Painting, decorating, and finishing <ul style="list-style-type: none"> a Basements b Floor coverings c Walls, partitions, and ceilings d Molding and baseboards e Fireplaces 5 Protection against decay and insect damage

-
- D Equipment and mechanical systems
- 1 Plumbing systems
 - a Piping
 - b Fixtures
 - c Hot water system
 - 2 Heating, ventilation, and air-conditioning systems
 - a Heating systems
 - 1 Warm or hot air
 - 2 Hot water
 - 3 Steam
 - 4 Electric
 - b Air-conditioning and ventilation systems
 - 3 Electrical systems
 - 4 Miscellaneous equipment
 - a Fire protection
 - b Elevators, escalators, and speed ramps
 - c Signals, alarms, and call systems
-

APPENDIX 5: UNIFORMAT II, LEVELS 1, 2, AND 3 FOR BUILDINGS

Uniformat II Level 1 Major Group Elements		Uniformat II Level 2 Group Elements	Uniformat II Level 3 Individual Element Examples
A	Substructure	Foundation	Foundations, Slab on Grade
		Basement Construction	Basement Excavation, Walls
B	Shell	Super Structure	Floor and Roof Construction
		Exterior Enclosure	Exterior Walls, Windows, Doors
		Roofing	Roof Coverings, Openings
C	Interiors	Interior Construction	Partitions, Doors, Fittings
		Stairs	Stair Construction, Finishes
		Interior Finishes	Wall, Floor, Ceiling Finishes
D	Services	Conveying	Elevators, Escalators, Other
		Plumbing	Plumbing Fixtures, Water Distribution, Sanitary Waste, Rain Water Drainage, Other
		HVAC	Energy Supply, Heat and Cooling Generating Systems, Distribution System, Terminal/Package Units, Controls & Instrumentation, Systems Testing & Balancing, Other
		Fire Protection	Sprinklers, Standpipes, Fire Protection Specialties, Other
		Electrical	Service & Distribution, Lighting & Branch Wiring, Communications & Security, Other Electrical Systems
E	Equipment and Furnishings	Equipment	Commercial, Institutional, Vehicular, Other
		Furnishings	Fixed and Moveable Furnishings
		Rental Unit	
F	Special Construction & Demolition	Special Construction	Special Structures, Integrated Construction, Special Construction Systems, Special Facilities, Special Controls & Instrumentation
		Selective Building Demolition	Building Elements Demolition, Hazardous Components Abatement
G	Building Sitework	Site Preparation	Site Clearing, Demolition & Relocations, Earthwork, Hazardous Waste Remediation
		Site Improvements	Roads, Parking Areas, Trails, Site Development, Marina, Constructed Waterway, Amphitheater, Landscaping, Campgrounds, Picnic Area, Boundary
		Site Mechanical Utilities	Water & Waste Water System, Storm Sewer, Heating & Cooling Plant, Fuel System, Other Site Mechanical Utilities
		Site Electrical Utilities	Electrical System/Distribution, Site Lighting, Site Communication and Security, Phone System, IT System, Other
		Other Site Work (Construction)	Service & Pedestrian Tunnels, Solid Waste Recycling System, Aviation System, Outdoor Sculptures, Ruins, Fortification, Towers, Site Drainage, Bridge, Railroad System, Tunnels, Dams

APPENDIX 6: LSI CREDIT ELIGIBLE EVENT (LCEE) PROCESS

APPENDIX 7: FIXTURE DECISION PROCESS

WHERE TO GET HELP

Inquiries for help should be directed to the Regional Concessions Office. Should additional support be required, subsequent inquiries should be directed to:

NPS Commercial Services Program
Asset Management Branch
Email: NPSCCommercialServices_AMHelpdesk@nps.gov